

DNRC FIRE COST REPORT

A Report Prepared for the

Legislative Finance Committee

By

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PURPOSE AND SCOPE

The purpose of this report is to provide an update and overview of the financial impact of the 2003 fire season on the state budget for fiscal 2004. More specifically, the report will discuss the wildfire cost estimate to date and update the LFC on recent developments related to fiscal 2004 fire costs.

DNRC FIRE COST ESTIMATE

<i>Legislative Fiscal Division</i>	
Natural Resources and Conservation	
Fiscal 2004 Estimated Fire Costs *	
PART 1:	
<u>FY 2003 ACTUAL & ESTIMATED FIRE COSTS</u>	
Actual State Protection Costs as of May 13, 2004	42,998,400
DNRC -- \$39.9 million	
DMA -- \$3.1 million	
Estimated Remaining State Protection Costs	36,381,565
U.S. Forest Service -- \$35.0 million **	
California Department of Forestry -- \$1.4 million	
Anticipated Spring 2004 Fire Costs	200,000
PAID & ANTICIPATED OBLIGATIONS	\$79,579,965
PART 2:	
<u>REMAINING FIRE COST TO THE STATE OF MONTANA</u>	
PAID & ANTICIPATED OBLIGATIONS	\$79,579,965
FEMA Reimbursement ***	(\$32,326,584)
Received by DNRC -- \$10.6 million	
Received by DES -- \$265,218	
Estimated Remaining Payment -- \$21.4 million	
Other Reimbursements - Received	(\$11,199,174)
U.S. Forest Service Reimbursement -- \$10.8 million	
DNRC Forestry Budget -- \$37,911	
BLM Reimbursement -- \$439,745	
Other Reimbursements - Anticipated	(\$1,057,083)
U.S. Forest Service Reimbursement -- \$1.0 million	
National Park Service -- \$8,059	
BLM Reimbursement -- \$29,483	
Governor's Emergency Fund Advance	<u>\$0</u>
Total Payments by Other Entities	<u>(44,582,841)</u>
Preliminary Net Cost to the State	\$34,997,124
Less: Federal Jobs and Growth Tax Reconciliation Act Fiscal Relief Money	<u>(\$27,428,018)</u>
Remaining Fire Suppression Cost	<u>\$7,569,106</u>
<p>* NOTE: All cost information is based upon best available estimates at the time of compilation and is subject to fluctuation. The cost for all fires that Montana has some financial responsibility is estimated at \$122.1 million. Negotiations are in progress to determine the final state share of those fires. Thus, the legislature can expect changes in the fire cost numbers.</p> <p>** The forest service is working to finalize the bill. Although the department is working to determine the final amount of the bill, current estimates are that the Forest Service bill is \$7.0 million higher than previously anticipated.</p> <p>*** FEMA estimates are lower than originally reported because some costs are: 1) outside the declaration period and/or 2) not eligible for FEMA reimbursements. FEMA is averaging 65 percent of total cost.</p>	

Part 1 of the table shows total estimated costs for the Department of Natural Resources and Conservation's (DNRC) fire suppression efforts, including the anticipated bill from the federal government for assistance in fighting Montana fires. The state: 1) has paid \$43.0 million to cover actual state protection costs; 2) anticipates paying an additional \$36.4 million of estimated fire costs. These bills consist of the Forest Service Bill of \$35.0 million and a California Department of Forestry bill of \$1.4 million. The Forest Service Bill is \$7.0 million higher than anticipated. At the March 2004 LFC, the department estimated that this additional amount would be at least \$2.0 million and as much as \$5.0 million higher. Until the bill is finalized, the actual amount of the Forest Service bill will remain unknown; and 3) is estimating approximately \$0.2 million for Spring 2004 wildfire costs. Because there is another month remaining in the fiscal year, this amount could change. Currently, the department has spent about \$150,000 for Spring fire costs. These calculations bring the total cost of fire suppression to approximately \$79.6 million.

Part 2 shows the estimated net cost of fire suppression incurred by DNRC and the Department of Military Affairs (DMA). There were several FEMA eligible fires in Montana. Consequently, the state has already received \$10.9 million and is estimating additional grant awards of \$21.4 million. This brings the total FEMA award to an estimated \$32.3 million. Currently, for fires that are FEMA eligible, the grant awards have been approximately 65 percent of the total state share of the cost. Early estimates were calculated at 75 percent of eligible costs. However, because some costs are ineligible or fall outside of the declaration period, the actual award is less than anticipated.

In addition, when Montana firefighters help other agencies suppress fires, Montana is reimbursed for associated expenses. The department has received reimbursements for costs paid associated with fires that were not the state's responsibility. Reimbursements already received total \$11.2 million. Further, the department anticipates that other reimbursements will be received over the next couple of months. DNRC estimates that the state will receive an additional \$1.1 million for costs associated with other entities fires.

Once FEMA and assistance to other entities are accounted for, total payments by other entities is \$44.6 million. Thus, the net cost of fire suppression in fiscal 2004 is estimated to be \$35.0 million. The cost above the original estimated Forest Service bill coupled with a decrease in the estimated FEMA grant award results in a \$3.3 million increase over estimates reported during the March 2004 LFC meeting.

The Office of Budget and Program Planning (OBPP) processed documents to utilize \$27.4 million of Federal Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) grant money to pay costs such as payroll costs, which are due in the short term. After this payment and expected reimbursements, the remaining fire cost totals \$7.6 million. Once fire costs are finalized, OBPP has indicated that any remaining fire cost will be paid with remaining JGTRRA funds.

Average Cost of Fire Suppression			
Fiscal Year	Total Cost	Reimbursements	Net Cost
1998*	870,638	(97,297)	773,341
1999	8,303,438	(2,402,172)	5,901,266
2000	5,205,614	(914,375)	4,291,239
2001	54,925,104	(44,784,017)	10,141,087
2002	16,417,193	(3,549,700)	12,867,493
2003	6,710,688	(4,684,927)	2,025,761
2004 (estimate)*	\$79,579,965	(44,582,841)	<u>34,997,124</u>
5 Year Average Cost	<u>\$18,312,407</u>		<u>\$7,045,369</u>
7 year Average Cost (high and low included)	\$24,573,234		\$10,142,473
* Not included in the 5 year average calculation			

AVERAGE FIRE COST

An average fire cost could be used as a planning tool to estimate fire cost impacts on state resources. Although there may be other valid methods, this report bases the calculation upon a seven year average in which the fire cost from the most recent seven years are averaged after the high and low years are removed from the calculation. Further, the average is calculated on both the total cost and the net cost of suppression. As the figure shows, the State of Montana

experiences an average total fire cost of \$18.3 million per year.

One might argue that the total fire cost isn't an accurate representation of the actual impact on state resources. However, this approach should be used with caution. Because the state is obligated to pay fire costs, a situation could arise in which the department would be required to pay for all fire costs in a given fiscal year. For example, an audit delay at the federal level could result in reimbursements or grants that would not be received until after the end of the fiscal year in which the costs were incurred. Although the state would ultimately receive reimbursement, costs may have to be paid several months before the actual receipt of the reimbursement or grant.

Another approach uses the average net cost of fire suppression. Although the methodology of calculating the average cost is the same for total and net cost, the net cost number assumes that all fire cost reimbursements or grants will be received in the same fiscal year as they were incurred or awarded, resulting in a smaller average cost figure. Although the net cost calculation is substantially lower than the total cost, having to pay the total cost in a given fiscal year may strain state resources because of increased cash flow needs. The average net cost of fire suppression is currently \$7.0 million. The above figure shows the five-year average of the cost of suppression is substantial no matter which method is utilized.

UPDATES

Forest Service Bill

Acting as a clearinghouse for fire suppression costs, the Forest Service consolidates, reconciles, and audits the final bill that is ultimately sent to Montana for costs incurred by other entities for which the state must provide reimbursement.

Although the department anticipated receiving, auditing, and finalizing the bill by the March 2004 LFC meeting, problems with the bill prevented that from happening. During the March meeting, the LFC was advised that when the department originally received the bill, DNRC analysts determined that the State of Montana had been billed for fires and equipment that was not the state's responsibility. Thus, the bill was returned to the Forest Service for revision. Early

examinations indicated that the complexity of the recent fire season coupled with problems arising from a new Forest Service computer system were the likely causes of the billing errors.

At the last meeting, the LFC was notified that the department identified a net cost increase of at least \$2.0 million and as much as \$5.0 million. However, the department is currently examining the Forest Service bill and has determined that additional costs will total approximately \$7.0 million. According to the department, the verification process is ongoing and changes can be expected.

JGTRRA

Congress granted fiscal relief funds under the Federal Jobs and Growth Tax Relief Reconciliation Act to the State of Montana and imposed few limits on the use of this money. Among the limits, the federal act requires that the funds: 1) be used to provide essential government services; 2) be used to cover state costs incurred to comply with unfunded federal mandates; and 3) can only be used for expenditures permitted under the most recently approved budget for the state.

Because of the decision to utilize JGTRRA money, the department has not yet experienced any financial difficulties as a result of paying for wildfire costs incurred in fiscal 2004. Montana has received the entire \$50 million of JGTRRA grant dollars as anticipated, and has utilized \$27.4 million of this funding source to pay for fiscal 2004 fire costs. The following figure shows the balance anticipated for the remainder of the 2005 biennium for wildland fire costs:

Governor's Proposed or Actual Allocations Federal Jobs and Growth Tax Relief Reconciliation Act Funding 2005 Biennium			
Proposed Usage	Fiscal 2004	Fiscal 2005	Beinnium
Fire Costs	\$ 27,428,018		\$ 27,428,018
Bankruptcy Hearings *	1,200,000		1,200,000
Health and Human Services	3,007,000	1,007,000	4,014,000
K-12 Education	2,700,000		2,700,000
Capital Projects	450,000		450,000
Montana University System	2,700,000		2,700,000
Military Affairs	249,682		<u>249,682</u>
Total Federal Funds			\$ 38,741,700
Remaining Funding for Fiscal 2005 Fires			\$ 11,258,300
Less: Additional Fire Costs for Fiscal 2004			<u>(7,569,106)</u>
Balance Expected for 2005 Biennium Fire Costs **			<u>\$ 3,689,194</u>
* Appropriations established for bankruptcy proceedings total \$772,641. Total cost is expected to total \$1.2 million and was used in the calculation of the expected balance.			
** Military Affairs is expecting a FEMA reimbursement of \$265,218 and there is a possibility of bankruptcy reimbursements of \$1.2 million. If these materialize, these amounts would be available for fire suppression bringing the total to \$5.2 million.			

Based upon existing appropriations and anticipated costs, about \$11.3 million of JGTRRA funding had been set aside for fire costs incurred during the Spring of 2004 and all of fiscal 2005. It continues to be the Governor's position that any remaining fire bills will be paid with JGTRRA funding. However, with a remaining fire bill of \$7.6 million, only \$3.7 million of the JGTRRA funding would remain for the 2005 biennium, well below both the five-year average and recent cost experience.

Fire Cost Study Group

As reported during the March 2004 LFC meeting, DNRC had formed a study group to examine funding issues associated with wildfires. Participants include department personnel, landowners, fire fighters, and legislators. Primary goals of the group meetings were to: 1) elevate the level of understanding about wildland fire protection in Montana; 2) discuss the current fire funding structure for both suppression and pre-suppression costs; 3) identify and explore fire funding alternatives; and 4) determine whether a group of interested parties could develop and back a department sponsored piece of legislation designed to address shortfalls in the current funding system.

The Legislative Audit Committee had discussed a staff study of the wildfire funding issues, but chose to defer any study since the DNRC committee was examining this issue.

The first meeting on October 8, 2003 consisted of an overview of the current funding structure and some initial discussions of problems associated with funding. Subsequent meetings focused on developing funding alternatives and issues.

Throughout the process, the committee identified groups that benefited from fire suppression activities. Among these groups were the public, landowners, rural homeowners, the tourism industry, utility companies, recreationists, railroads, and the insurance industry. Since these groups benefited from fire suppression activity, each were included among alternatives designed to raise additional revenue for wildfire related activities. All alternatives assumed continued use of the general fund as a significant funding source, while additional funding would be raised from a combination of assessments on beneficiary groups.

Since the meetings began, Bob Harrington, State Forester, talked with committee members and stakeholder groups to discuss the various fire funding alternatives being analyzed by DNRC staff. As a result of those discussions, none of the stakeholders were willing to consider new or increased assessments to fund fire related costs. Thus, the department interpreted comments as strong support for the current method of using the general fund to pay for wildfire related costs.

Just prior to the February 19, 2004 meeting, the department decided to terminate the DNRC Fire Funding Committee meetings. Although the alternatives developed by the group are finalized, the department will not develop any legislation to address the fire funding issue. The department has compiled written comments and funding alternatives into a final report that will be distributed at the June 2004 meeting of the LFC.